

P-421/D-94-551 ORDER APPROVING REMAINING LIFE UPDATES AND REJECTING  
AMORTIZATION OF DEPRECIATION RESERVE DEFICIENCY

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
Tom Burton  
Marshall Johnson  
Cynthia A. Kitlinski  
Dee Knaak

Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of U S West Communications,  
Inc.'s Request for Certification of 1994  
Depreciation Rates

ISSUE DATE: October 18, 1994

DOCKET NO. P-421/D-94-551

ORDER APPROVING REMAINING LIFE  
UPDATES AND REJECTING  
AMORTIZATION OF DEPRECIATION  
RESERVE DEFICIENCY

**PROCEDURAL HISTORY**

On January 20, 1994, U S West Communications, Inc. (USWC or the Company) submitted its annual review of remaining life depreciation rates. The Company also requested a five-year amortization of the depreciation reserve deficiency that existed as of January 1, 1994.

On August 1, 1994, the Minnesota Department of Public Service (the Department) filed comments. The Department recommended that the Commission approve the proposed remaining life updates and reject the Company's proposal to amortize its reserve deficiency over five years.

On August 10, 1994, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments that agreed with the Department.

On August 15, 1994, USWC filed reply comments supporting its amortization proposal and correcting the Department's estimate of the stand-alone impact of the Company's remaining life updates, i.e. the impact of the updates and no amortization.

On September 12, 1994, the Department filed reply comments continuing to oppose the amortization but agreeing that the remaining life updates would increase the annual depreciation expense by \$2.9 million.

On September 27, 1994, the Commission met to consider this matter.

## **FINDINGS AND CONCLUSIONS**

### **I. Background**

Every three years USWC is required to present a full depreciation study to the Commission. In this full triennial study, the Company proposes the basic depreciation parameters for each item of its plant: projection lives, curveshapes, and future net salvage estimates. After reviewing the Company's proposal, the Commission adopts appropriate parameters, which are then used to determine depreciation rates for each plant account.

In the years between full depreciation reviews, the average remaining lives are calculated for plant additions and retirements occurring that year, while the basic depreciation parameters remain unchanged. The Commission's process is to review the annual update and approve the revised remaining lives.

### **II. Adjustment of Remaining Lives**

In this case, USWC has submitted its update of investment and reserve levels and a recalculation of the average remaining life for each plant account. Adoption of the Company's proposed average remaining lives would increase the annual depreciation expense by \$2.9 million.

Based on their analysis, the Department and the RUD-OAG supported the Company's proposal for recalculating the average remaining lives. The Commission, having fully reviewed the Company's proposal in this regard, will approve it.

### **III. Recovery of the Reserve Deficiency**

Each plant account has a reserve balance, the accumulation of the annual depreciation authorized for that account. The reserve in each account represents the portion of that account's investment that has been recovered.

USWC has asserted that, due to changing conditions in the market place (technological developments, economics, customer demands, etc.) the reserve balances, i.e. the amounts actually accrued in many of its plant accounts, were much lower than the amount that "should" be in those accounts based on the ratio of the account's remaining life to its average service life.<sup>1</sup> The excess of the reserve amount that "ought to be" over the actual reserve is called a reserve deficiency.

Neither the existence or size of USWC's deficiency is disputed. At issue in this Order is simply the appropriate recovery period for the deficiency.

Under existing depreciation methods approved in a series of Commission decisions, USWC's reserve deficiency will be recovered over the estimated remaining life for each account. USWC has proposed a clear departure from that precedent, to accelerate that recovery by amortizing the deficiency over a five year period.

In addition to departing from Commission precedent, USWC's proposal would alter the

---

<sup>1</sup> The method used by USWC, calculating a theoretical reserve and comparing it with the actual reserve, is a method typically used in evaluating the reasonableness of a given account's reserve balance.

accounting practices and methodology used in its last rate proceeding. As such, it would be contrary to the terms of the Incentive Plan that the Commission adopted for the Company. USWC's Incentive Plan requires the Company to use the accounting practices and methodology approved in its last rate proceeding. USWC acknowledged this problem, but stated that the Commission could and should amend the Incentive Plan at this time to allow the requested five-year amortization.

The Commission finds that this is not a proper proceeding in which to amend an Incentive Plan. The Incentive Plan was developed in a major proceeding participated in by many parties. It would be inappropriate to amend it without proper notice and comment from parties interested in such Plan. Incentive Plan issues will be thoroughly examined as the current Plan expires.

Even if the Incentive Plan did not prohibit using accounting practices and methodology other than those approved in USWC's last rate case, the Commission would not choose this proceeding to consider the merits of the Company's amortization proposal. USWC's upcoming Incentive Plan proceeding is a much more appropriate context for examining the Company's proposed five-year amortization or any similar proposal.<sup>2</sup> The participation of many parties will produce a much fuller, more appropriate record for such a decision. In addition, it would allow consideration of the proposed change in the context of other proposed changes that may be raised by the parties.

#### **IV. Commission Action**

Accordingly, the Commission will approve the remaining life updates proposed by USWC and reject the Company's proposed five-year amortization of the depreciation reserve deficiency. The Commission clarifies that its decision is based on its view that the current depreciation filing is not the proper proceeding for adopting such a proposal. It is not a decision that the Commission would reject or accept the proposal in an appropriate proceeding, such as the Company's incentive plan. The Commission would consider such a proposal on its merits in an appropriate proceeding.

#### **ORDER**

1. U S West Communications, Inc.'s (USWC's or the Company's) proposal to update the average remaining lives of its plant accounts is approved.
2. USWC's proposal to amortize the reserve deficiency over a five-year period rather than over the remaining life of the plant accounts is rejected.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

---

<sup>2</sup> This is particularly the case since, as indicated previously, adoption of the Company's proposal would be a departure from Commission precedent. The Commission would wish to examine such a request in the context of the strongest record feasible.

(S E A L)